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### **Discussion Framework for March 17, 2015 Joint Board Discussion of Whether the Memorial Trust Should be Extended Beyond 2020**

At the March joint meeting of the Institute and Memorial Trust boards, we will devote our Tuesday afternoon session to a discussion of whether the Memorial Trust should be extended beyond its current termination date of December 31, 2020. The purpose of this discussion is to allow in-depth consideration of the pros and cons of such an extension. This discussion will help inform the Institute board's decision on whether to extend the Memorial Trust, a decision the Institute Board expects to make before the June board meeting.

This framing paper restates each of the principal rationales the Institute Board relied on in making its 2009 decision to extend the Memorial Trust until 2020, and, with respect to each rationale, provides information and analysis relevant to assessing the continuing force of the rationales as potential justification for extending the Trust beyond 2020. This paper has been prepared by Rob and Bob, in consultation with Bruce C. and Frances in their capacity as members of the Institute Board's Memorial Trust Task Force, and in consultation with Lou and Bruce F. as representatives of the Trust.

#### **Rationale One: Spiritual Identity and Legacy**

**Spiritual identity.** A principal rationale (perhaps *the* principal rationale) for the Institute board's 2009 decision was its conclusion that the Memorial Trust could make an important continuing contribution to helping the Institute "*retain its balance and stand upright, grounded in its spiritual center, ...*".<sup>1</sup>

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<sup>1</sup> In this regard, Rob's December 20, 2007 memorandum recommending continuation of the Memorial Trust included the following statement:

Over the years, we've come to understand an underlying, more fundamental challenge to John's vision, and that is the paradox of how the Institute can stay deeply rooted spiritually while focusing on making a difference in a secular culture. John pointed to this when describing the tension between spirituality and materialism in *America's Agony*. We live in an in-between time, when the secular and spiritual are working out a new relationship. Positioning itself in the "fertile crescent," the Institute is a microcosm (imaginal cell) of this emergent paradigm. *How can the Institute retain its balance and stand upright, grounded in its spiritual center, while facing into the huge gravitational pull of a "disenchanted," secular society?* It is especially in relation to this core question that the Memorial Trust may provide an extraordinary service to the Institute's future.

The substantial weight given to this rationale reflected the Institute board's concern at the time that the Institute community did not have a sufficiently clear understanding of, or defining commitment to, what we are now calling our spiritual identity.

Over the past eighteen months, the Institute – with strong support from the Memorial Trust -- has made a priority commitment to clarifying our spiritual identity and becoming a community of freedom that is truly grounded in and animated by a shared understanding of that identity. Recognizing that this will always be a work in progress, the Institute board is committed to making this work a continuing priority in the years ahead.

*Does the Trust's potential contribution to strengthening the Institute's grounding in its spiritual identity constitute a compelling rationale for extending the Trust beyond 2020?*

**John Fetzer legacy.** Closely related to the Memorial Trust's role in helping the Institute stay grounded in our spiritual identity, the Trust has also provided important leadership in documenting, interpreting, and preserving John Fetzer's vision and legacy. In 2009, the Institute board concluded that much important legacy work remained to be done and that this provided another compelling rationale for extending the life of the Trust.

In the years since 2009, the Trust has undertaken and completed a number of important projects related to documenting and interpreting John Fetzer's legacy. Drawing on this foundational work, the current biography project will produce a definitive account of John's life and spiritual journey.

The intensive effort over the past eighteen months to deepen our understanding of, and commitment to, our spiritual identity and community of freedom has brought the Fetzer community to a clearer understanding of the enduring core of John's legacy and vision and has also begun to embed that understanding at the heart of the Institute's life and work.

If the Trust continues beyond 2020, leadership will pass relatively quickly to a new generation of trustees who did not know John Fetzer.

*Does the Trust's potential contribution to documenting, interpreting, and preserving John Fetzer's legacy constitute a compelling rationale for extending the Trust beyond 2020?*

## **Rationale Two: Financial and Administrative Benefits**

**Mandatory payout rate.** If the Trust's endowment were transferred to the Institute, the combined endowment would be subject to a mandatory minimum payout rate of approximately 3.5%. Because the current structure allows the Trust to count payments to the Institute toward satisfying the Trust's payout requirement, this structure enables the Institute and Trust to reduce the combined payout rate to approximately 2.9%. n reaching its 2009

decision to extend the Trust, the Institute board gave significant weight to this ability to reduce the mandatory payout rate.

Between 1997 and 2012, the combined payout rate for the Institute and the Trust has averaged 4.33% of the combined endowment -- i.e., substantially more than the 3.5% minimum payout that would apply if the Institute held the entire endowment. Thus, for non-legal reasons the two Boards have decided to spend substantially more than the legally-mandated minimum.

Because the Institute has a long-term mission, the Institute board is committed to the long-term preservation of the inflation-adjusted value of the combined endowment. As shown in the graph presented in Attachment 1, the Institute and the Trust have meet this long-term objective.

Cambridge advises that to preserve the inflation-adjusted value of our endowment under current investment conditions, the Institute should limit its payout to no more than 4.5%.

Since our ability to advance our mission in the near term is roughly proportionate to the amount we spend, a strong argument can be made that we should view 4.5% not just as a ceiling but also as a target for our annual payout. If we do, our payout rate will continue to be substantially greater than the 3.5% mandatory payout rate that would apply if the Institute held the entire endowment.

*Does the current structure's lower mandatory payout rate constitute a compelling rationale for extending the Trust beyond 2020?*

**Investment strategy.** Because under the current structure the Institute does not control the Trust's investment decisions, the Trust can, and does, have a different investment strategy than the Institute. In 2009, the Institute board concluded that this constituted an additional reason for extending the Trust.

Over the most recent 3, 5, and 10 year periods, as well as over the longer period beginning January 1, 1999, the Institute and Trust have earned virtually identical rates of return.

	<u>3 years</u>	<u>5 years</u>	<u>10 years</u>	<u>Since 1/1/99</u>
Institute	16.1%	11.0%	8.8%	7.3%
Memorial Trust	16.7%	11.0%	8.6%	7.4%

If the Institute held the combined endowment, it could continue to use the Trust's investment strategy and the Trust's investment staff and managers to manage a portion of the combined endowment equal to the current endowment of the Trust.

*Does the ability of the Trust to manage its investments independent of the Institute constitute a compelling rationale for extending the Trust beyond 2020?*

**Permitted grant-making.** As an operating foundation, at least 85% of the Institute's total expenditures must be "direct charitable expenditures" (i.e., expenditures on the Institute's own operations and programs), and no more than 15% can be grants. This 15% limit is applied on the basis of a four year moving average, and, thus, grants in a particular year can be substantially greater than 15% of total payout.

By contrast, because the Trust is a non-operating foundation, it is not subject to any limit on the amount of grants it can make. In 2009, the Institute board concluded that preserving this increased capacity to make grants constituted an additional reason for extending the Trust.

Over the past 15 years, virtually the only grants made by the Institute have been the President's Fund grants recommended by individual trustees and the grants made to organizations in the Kalamazoo area. These grants have never exceeded \$1 million.

If the Institute held the entire endowment and had a total payout of 4.5%, it could make annual grants of approximately \$3.8 million.

*Does the Trust's greater capacity to make grants constitute a compelling rationale for extending the Trust beyond 2020?*

### **Rationale Three: Fetzer Science**

In support of its 2009 decision to extend the Trust, the Institute board also concluded that there were substantial benefits to continuing to conduct the Fetzer-Franklin science program through the Trust rather than transferring it to the Institute. Most importantly, the Institute board was concerned that senior Institute staff were not committed to the Fetzer-Franklin program and did not see a strong substantive connection between the goals of the Fetzer-Franklin program and the goals of the Institute. Further, the Institute board concluded that conducting Fetzer-Franklin through the Trust provided greater flexibility to engage in frontier science without adverse effects on the Institute's reputation, and also permitted more nimble and entrepreneurial management of the program.

In contrast to the situation in 2009, the Institute's new long-term program strategy envisions a single unifying goal for the overall program of the Institute and Memorial Trust and full integration of the Fetzer science program into the overall program work of the Institute.

*Are there continuing benefits to conducting the Fetzer-Franklin science program through the Trust, and, if so, do these benefits constitute a compelling rationale for extending the Trust beyond 2020?*